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Intelligence Report

Developed Countries: Short-Term Economic Prospects

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Developed Countries: Short-Term Economic Prospects

SUMMARY

Prospects for economic growth in the six major foreign developed countries – Canada, France, Italy, Japan, the United Kingdom, and West Germany – have darkened substantially since our September forecast. On the other hand, we are now more optimistic about price and current account trends because of the weakening of aggregate demand and the fall in commodity prices.

Because we underestimated inventory accumulation in 1974 – and thus the inventory adjustment needed in 1975 – we now project a slight drop in GNP in the first half instead of the 3.2% increase forecast earlier. Economic activity should pick up in the second half as the inventory overhang is worked off and reflationary policies take hold. For the whole year, we expect the GNP of the countries as a group to increase by only 0.5%, compared with 1.0% last year and the long-term average of 6.6%. Britain and France should be slightly ahead of the pack, and Italy will bring up the rear.

On the plus side, inflation will subside in 1975. Wholesale industrial prices probably will rise only 7.5% this year, compared with a breathtaking 26% increase last year. The inflation of consumer prices also will slow, but less dramatically. Weak demand, lower raw material and food prices, and the leveling off of oil prices are the primary factors in the slowdown. Rising unit labor costs will provide the chief inflationary stimulus. Japan will slow its inflation the most this year, while Italy and the United Kingdom are likely to experience higher rates.

In view of the improved terms of trade and prospects for large sales to OPEC countries, we estimate a combined current account deficit for the six countries of US $9 billion in 1975, compared with $20 billion in 1974. A small part of the $15 billion rise anticipated in their trade surplus will be offset by higher interest payments resulting from heavy borrowing to pay oil bills.

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Note: Comments and queries regarding this report are welcomed. They may be directed to [redacted] of the Office of Economic Research, [redacted]

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West Germany is expected to increase its current account surplus from $10 billion to $14 billion. Japan's current account will be about in balance, while France's will probably be about $4 billion in deficit. Even though substantially improved from 1974, the estimated Italian and British deficits of $6 billion and $7 billion, respectively, will require heavy borrowing of petrodollars.

Our estimates of economic growth for the full year 1975 are slightly more pessimistic than the latest estimates of the OECD Secretariat. We foresee a larger drop in inventories in the first half than OECD does, while being more optimistic about government purchases and private fixed investment in the second half. Our projections of price movements are close to the OECD forecasts. Our estimate of the combined current account deficit is $3 billion lower than the OECD figure -- a small difference, considering the amount of trade and services involved.

DISCUSSION

Recent Developments

1. In 1974, the six major foreign developed countries slid into the deepest recession of the post-war period.* The real GNP of the group grew only 1.0% last year, compared with the long-term average of 6.6%. Under the impact of an unprecedented increase in oil prices, the combined real GNP of these countries barely rose in the first half of 1974. The shock of quadrupled oil prices was severe because it came roughly six months after the countries had adopted policies to cool their overheated economies.

2. Because control of inflation remained the top objective in most countries, governments did little to curtail the economic downswing. After midyear, many firms cut investment plans in response to slack consumer demand, and the construction slump deepened because of unusually high mortgage rates. Export growth slowed as the year wore on, reflecting the downturn in industrial nations and worsening financial problems in the non-oil LDCs. With final demand weak, inventories continued to mount in the second half, although at a reduced rate. By yearend, the inventory overhang was huge in many industries, particularly automobiles.

3. Inflation, boosted to record rates by soaring prices for oil and other commodities in the first half, became less rampant in the second. Weakening demand and a 40% decline in raw material prices from April to December were the major factors underlying the slowdown. For the six countries combined, wholesale prices of industrial goods rose at an annual rate of 13% in the second half, compared with 40% in the first half. By yearend, these prices had almost stopped rising. Consumer prices showed a much less pronounced slowdown in the second half.

4. Because of a $39 billion rise in oil import costs, the six countries together had a current account deficit of $20 billion in 1974, up from $1 billion in 1973. Reduced growth in import volume, improving terms of trade, a near doubling in exports to OPEC countries, and growing trade surpluses with non-oil LDCs were important offsets to the hike in oil bills. Deficits were financed mainly through borrowing by commercial banks and state companies in the Eurocurrency market, where huge inflows of OPEC money boosted the supply of lendable funds.

* For detailed statistics on economic performance, see the Appendix.

Dim Prospects for Economic Growth in 1975

5. The countries' outlook for economic growth in 1975 is dismal. Their GNPs are expected to rise an average of only 0.5%. Excessive inventories in many industries, depressed confidence among consumers and investors, and restrictive government policies preclude significant recovery in the first half. Recovery should start in the second half, as inventories fall back into line and reflationary measures – some already introduced and others likely by midyear – begin to take hold.

6. None of the countries promises to achieve creditable growth this year. GNP probably will decline a little in Italy, and only Great Britain has a projected rate of as much as 1.0%. France has the best prospects for improvement in the second half, and West Germany, Japan, and Canada should then reach an annual rate of 2% or so (see Table 1).

Table 1

Developed Countries: Changes in Real GNP

Percent

				Change from Previous Half-Year at an Annual Rate, Seasonally Adjusted			
						Projected	
	Average Annual 1959-73	1974	Projected 1975	1974 I	1974 II	1975 I	1975 II
Total	**6.6**	**1.0**	**0.5**	**0.2**	**0.6**	**-0.3**	**2.0**
Canada	5.1	3.5	0.3	5.6	-1.4	0.3	2.0
France	5.8	4.3	0.7	5.3	1.7	-1.0	3.3
Italy	5.5	3.6	-0.5	2.6	-0.7	-1.2	0.4
Japan	10.9	-1.7	0.5	-4.2	3.0	-0.6	2.1
United Kingdom	3.3	-0.6	1.0	-2.0	2.7	0.5	0.3
West Germany	4.9	0.4	0.1	2.1	-2.9	0.4	2.4

A Key Factor: Inventory Adjustments

7. We believe that a scaling-down of inventories to near normal levels will be a major inhibitor of economic recovery. Inventory adjustment was a major factor

in the sharp reduction in industrial production and rise in unemployment of recent months. In our forecast we assume that excess inventories built up last year will be largely liquidated in the first half of 1975. Stocks should actually decline in West Germany, and the rate of stockbuilding should be sharply reduced in the other countries (see Table 2). In the aggregate, we expect that inventory adjustments will depress GNP growth in 1975 by one percentage point, with nearly all the impact occurring in the first half. The effects will be most severe in Japan, which at yearend had excess inventories equaling an estimated 8% of GNP.

Table 2

Developed Countries: Changes in Stocks

Billion 1973 US $

			Change from Previous Half-Year			
					Projected	
	1974	Projected 1975	1974 I	1974 II	1975 I	1975 II
Total	**21.5**	**5.5**	**11.4**	**10.1**	**3.0**	**2.5**
Canada	1.9	0.2	1.1	0.8	0.3	-0.1
France	5.6	2.6	2.6	3.0	1.3	1.3
Italy	0.9	0.2	0.4	0.5	0.1	0.1
Japan	12.6	1.4	7.7	4.9	1.4	....
United Kingdom	....	0.4	-0.3	0.3	0.2	0.2
West Germany	0.5	0.7	-0.1	0.6	-0.3	1.0

Outlook for Government Policy

8. We expect economic policy to become more expansionary in the course of 1975, although fears of renewed inflation and payments problems probably rule out drastic shifts in policy. Growth in money supply in the six countries, after dropping sharply to an annual rate of 8% in the second half of 1974, probably will average about 12% in 1975. In addition to easing credit, several governments have announced or are planning mildly stimulative fiscal measures.

- West Germany has taken the most positive action – with implementation of a long-planned $6 billion tax cut and introduction of tax credits for investment;

- France has just announced a series of mildly expansionary tax breaks for business and subsidies for private housing;

- Japan is making some cautious fiscal moves for the second time this year and might loosen up more by midyear; and

- Canada probably will soon make revisions of a stimulative nature in the moderately expansionary budget announced last November.

Components of Final Demand: A Dull Picture

9. With the shift to more expansionary fiscal policies, government purchases of goods and services should be the strongest element in the generally sluggish growth of final demand this year. We expect government purchases to rise at annual rates of 3-1/2% in the first half and 4-1/2% in the second. Even in the second half, government purchases are the only component of demand likely to be rising at anything like the long-term rate (see Table 3). Canada probably will expand government purchases the most in 1975, with Japan close behind, mainly because of increased purchases in the second half of 1974. Because tax receipts will be depressed by the recession, the stimulus provided by the government sector will be even greater than is implied by the expansion in government purchases. Budget positions will worsen substantially in all the countries except Italy – with deficits in a few approaching 15% of expenditures.

10. Private consumption is projected to rise by 2-1/2% -- a slightly higher rate than in 1974. Higher real disposable incomes will be the chief factor in the gain; we do not expect much change in saving rates. A slowing of inflation and sizable increases in money wages should bring improvement in real wages. These gains and extensive income maintenance programs will more than offset the adverse effects of higher unemployment.

11. Private consumption probably will grow most in Japan, West Germany, and Canada. The impact on German consumer spending of the $6 billion tax cut effective last January is being delayed but will not be eliminated by temporary difficulties in adjusting withholding rates for income taxes. Private consumption is expected to fall only in Italy, where the austerity program, rapid inflation, and a high degree of job uncertainty will discourage consumer spending.

Table 3

Developed Countries[1]: Changes in Real GNP, by End-Use Components

Percent

	Average Annual 1959-73	1974	Projected 1975	Change from Previous Half-Year at an Annual Rate, Seasonally Adjusted		Projected	
				1974 I	1974 II	1975 I	1975 II
GNP	6.6	1.0	0.5	0.2	0.6	-0.3	2.0
Private consumption	6.4	2.1	2.4	1.1	2.5	2.1	2.4
Government purchases	5.5	1.3	3.6	0.4	3.3	3.4	4.5
Gross fixed private investment	9.0	-4.0	-1.3	-9.2	-5.1	-0.4	0.7
Plant and equipment	13.0	-2.7	0.9	-11.0	-0.4	1.3	1.5
Housing construction	5.0	-6.0	-4.8	-6.4	-11.8	-3.1	-0.5
Final domestic demand	6.4	0.5	1.8	-1.4	1.0	1.9	2.5
Exports of goods and services	10.5	9.3	1.5	14.6	0.4	1.6	2.6
Imports of goods and services	11.1	5.5	2.2	6.4	0.4	2.3	3.8
Net foreign demand[2]	....	0.7	-0.1	1.5	....	-0.1	-0.2
Stockbuilding[2]	0.2	-0.3	-1.3	....	-0.4	-2.0	-0.3

1. Canada, France, Italy, Japan, the United Kingdom, and West Germany.
2. Changes are expressed as a percent of GNP of the preceding period.

12. Private fixed investment, down 4.0% last year, probably will drop slightly this year as well. We anticipate a continued decline in housing construction activity that will offset a fractional rise in business investment. Residential housing starts will be held down by overbuilding in the past, high prices, and high mortgage rates. In West Germany, where 300,000 housing units remain vacant, construction is expected to be off by 7%. For Britain, we project a 13% drop in housing construction, because of an incomes pinch.

13. Excess capacity, lower profits, and uncertainties about sales will be major drags on business investment this year. In general, plant utilization is now so low that capacity is unlikely to come under pressure until well into 1976. Only in Canada, where resource development projects still beckon investors, is spending on plant and equipment likely to rise substantially. Italy and Britain promise to turn in the worst performance, with outlays falling in both halves of the year.

14. Net foreign demand probably will be a neutral factor in economic growth this year instead of the slightly expansionary force it was in 1974. Italy should benefit most; because the austerity program should reduce import volume, we expect a rise in net foreign demand that will contribute about 1 percentage point to GNP growth. On the other hand, Canada probably will suffer a 2 percentage point drag on growth as US demand for its goods slumps and import volume continues to rise.

Inflation: Relief on the Way

15. Inflation will slow considerably this year. We expect wholesale prices in the six countries to increase an average of only 7.5%, compared with 26% in 1974. The rise in consumer prices will recede more slowly from the 16% pace of 1974, to estimated annual rates of 11-1/2% in the first half of 1975 and 10% in the second (see Table 4).

Table 4

Developed Countries: Increases in Consumer Prices

Percent

	Average Annual 1959-73	1974	Projected 1975	Change from Previous Half-Year at an Annual Rate			
						Projected	
				1974 I	1974 II	1975 I	1975 II
Total	**4.8**	**15.7**	**11.8**	**18.9**	**14.4**	**11.6**	**10.0**
Canada	3.4	10.9	11.0	10.4	12.6	10.7	10.0
France	4.7	13.6	10.8	15.0	14.5	10.3	8.2
Italy	4.8	19.4	20.2	19.7	28.0	18.6	16.9
Japan	6.2	24.4	12.8	32.2	17.6	11.9	10.2
United Kingdom	5.1	16.0	18.1	18.9	16.2	21.0	14.5
West Germany	3.5	7.0	5.3	8.6	4.9	5.1	6.1

16. Most of the pressures responsible for the recent high inflation rates are abating. Prices of most raw materials are down substantially from 1974 levels and are unlikely to turn up strongly over the next several months. Barring major crop failures, food prices should not increase much in 1975. Weak demand in each of the six countries will also help to bring down inflation rates. With sales lagging and substantial productive capacity idle, many firms probably will cut profit margins rather than pass through the full amount of cost increases.

17. The major impetus to inflation in 1975 will be the rapid rise in unit labor costs that began last year. Labor productivity will not improve much so long as GNP stagnates; thus most of the substantial wage gains that workers are winning will be reflected in production costs. Such cost pressures will be particularly severe in the United Kingdom, Italy, and Canada, where workers trying to catch up with past inflation are demanding large pay hikes.

Improvement in Current Account Balances

18. The aggregate current account deficit of the six countries is expected to shrink dramatically in 1975, to \$9 billion, compared with \$20 billion last year. The improvement will stem entirely from a strengthening trade position. We estimate that the six countries will reduce their trade deficit with OPEC countries by \$7 billion and will raise their surpluses with non-oil LDCs and with other developed countries by \$5 billion and \$2 billion, respectively. The deficit on services is projected to increase by \$3 billion, to \$26 billion, because of reduced earnings from overseas investment, higher interest payments, and declining tourist business.

19. As in 1974, the current account positions of individual countries will differ enormously. West Germany's surplus will grow from \$10 billion to an estimated \$14 billion, and the deficits of Italy and Britain are expected to recede moderately to \$6 billion and \$7 billion, respectively. We have recently reduced our forecasts of the Italian and British deficits because of the unexpectedly rapid improvement in their terms of trade. Japan and France probably will improve their current account positions considerably. Canada alone promises to lose ground (see Table 5).

More Favorable Terms of Trade

20. Expectation of improved terms of trade is the major factor in our forecast of better current account balances (see Table 6). Export prices in the first half

Table 5

Developed Countries: Trade and Current Account Balances

Billion US $

	1973		1974		Projected 1975	
	Trade	Current Account	Trade	Current Account	Trade	Current Account
Total	**13.5**	**-1.0**	**2.4**	**-20.2**	**17.1**	**-8.7**
Canada	2.2	-0.4	0.7	-2.2	-2.1	-5.0
France	1.4	-0.3	-3.4	-5.7	-1.4	-4.2
Italy	-4.0	-2.5	-8.0	-8.3	-5.1	-5.7
Japan	3.7	-0.1	1.3	-5.2	6.5	-0.6
United Kingdom	-5.8	-2.6	-12.2	-8.8	-9.5	-6.9
West Germany	16.0	4.9	24.0	10.0	28.7	13.7

Table 6

Developed Countries: Projected Changes in Current Account Components 1975

Billion US $

	Change in Trade Balance				
		Attributable to			
	Total	Change in Volume	Change in Terms of Trade	Change in Services Balance	Change in Current Account Balance
Total	**14.7**	**1.9**	**12.8**	**-3.2**	**11.5**
Canada	-2.8	-1.3	-1.5	....	-2.8
France	2.0	-0.1	2.1	-0.5	1.5
Italy	2.9	1.4	1.5	-0.3	2.6
Japan	5.2	3.6	1.6	-0.6	4.6
United Kingdom	2.7	0.9	1.8	-0.8	1.9
West Germany	4.7	-2.6	7.3	-1.0	3.7

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of the year are expected to rise at an annual rate of 15%, compared with only a 9% increase in import prices. This improvement in the terms of trade will be only partly reversed in the second half, when export prices are expected to rise a little less than import prices (see the chart).

21. We expect lower prices for raw materials to offset higher prices for oil and food. Little change from 1974 to 1975 is expected in the average price level for these commodities, which are large components in the six countries' imports. As the world's largest commodity importer, Japan should benefit most. Oil, food, and raw materials make up 77% of its imports, compared with a 40% average for the European countries. As a substantial commodity exporter, Canada will be hurt by the leveling off of these prices.

22. Although the rise in export prices should slow considerably as domestic inflation eases in the second half, we still are projecting an average 15% increase in the dollar price of the countries' exports – primarily manufactures – for 1975. Canadian export prices will rise only about 6%, while the European countries' export price increases will be in the 15%-20% range. Continued rapid domestic inflation accounts for most of the anticipated rise in the dollar price of British and Italian exports. The increasing dollar price of German and French exports will partly reflect the appreciation of these countries' currencies against the dollar since last fall.

Little Change in Trade Volume

23. The current account balances of the countries as a group probably will be little affected by differences in the growth of import and export volumes; we expect the rise in both to be fairly small. Because of the widespread recession, we are projecting an increase in import volume of only 1.4% – most of it in the second half – as demand picks up. The volume of oil imports is expected to fall 2-1/2% below the 1974 level as a result of high prices, the recession, and energy conservation measures.

24. Growth in the six countries' export volume is projected at only 2%. We expect Japan and Italy to do considerably better than France and Canada. In forecasting a 2% increase in British exports, we are assuming that the United Kingdom will be able to maintain its market share. Britain is likely to come under increasing competitive pressure later in 1975 unless its inflation is substantially reduced or the pound is allowed to depreciate. Our projections of import and export volume in the individual countries are as follows:

	Percent Change			
	Exports		Imports	
	1974	1975	1974	1975
Total	8.5	1.9	1.6	1.4
Canada	-2.7	-0.8	17.8	3.2
France	8.3	-1.0	3.9	-0.9
Italy	3.0	3.7	-6.3	-0.7
Japan	15.1	6.3	0.9	0.3
United Kingdom	5.5	1.9	0.9	-0.4
West Germany	11.6	1.2	-1.5	5.6

Trade Gains with the LDCs

25. Trade with the OPEC states and non-oil LDCs accounts for most of the projected $15 billion improvement in the developed countries' overall trade balance. We expect the countries' trade balance with OPEC states to narrow by $7 billion as a consequence of (a) stagnation in oil imports; (b) a 25% jump in the volume of sales to OPEC, a gain representing two-thirds of the anticipated total increase in export volume; and (c) substantial improvement in terms of trade. Improved terms of trade with the non-oil LDCs account for another $5 billion of the estimated rise in the six countries' trade surplus.

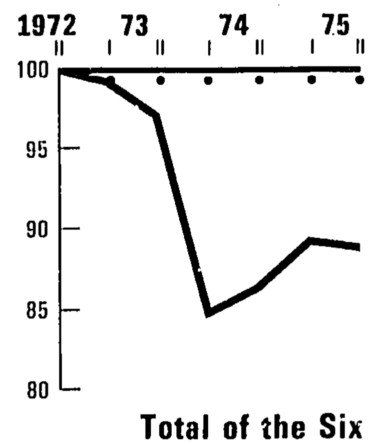
Financing Current Account Deficits

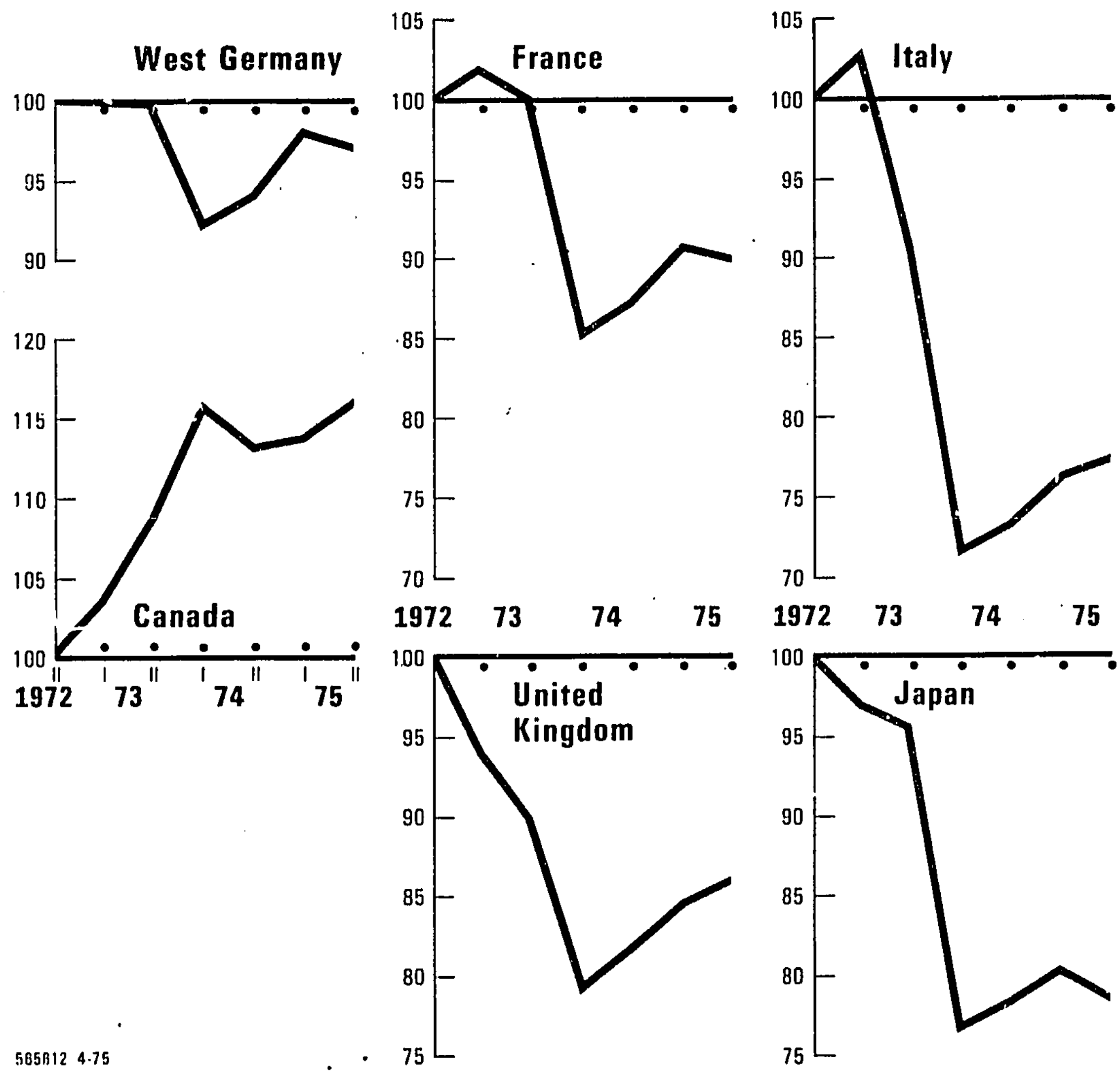
26. The five countries expected to have current account deficits in 1975 should be able to finance the amounts we have projected. We thus doubt that any of the countries will have to restrict imports appreciably or retard the anticipated recovery to achieve a deficit of more manageable size.

27. Canada should have little trouble financing the expected deficit of $5 billion. The lure of its energy resources and the willingness of OPEC countries to invest in Canadian bonds should bring in enough capital to prevent a loss in foreign reserves. Continued borrowing from Arab oil producers should cover the $4 billion deficit in prospect for France. Japan will easily be able to finance the anticipated deficit of $600 million by attracting OPEC funds directly and via its Euromarket banks. Indeed, Japan's success in attracting foreign capital has recently prompted Tokyo to liberalize its restrictions on capital outflows and to discourage corporate borrowing in the Eurodollar market.

DEVELOPED COUNTRIES: Terms of Trade

Index: 1972 second half=100





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28. Italy and the United Kingdom face rougher going but should be able to muddle through another year. Rome is still finding it difficult to borrow in the Eurocurrency market, and its recent attempts to borrow directly from Arab oil producers have yielded little. Still, unless political crisis triggers a large outflow of capital, assistance from the various recycling funds and some drawdown of foreign exchange reserves – currently around $3 billion – should see Italy through the year.

29. OPEC funds financed more than one-half of Britain's $9 billion current account deficit last year and may cover one-third of the prospective $7 billion gap in 1975. Inflows of capital into the petroleum industry will add another $1 billion. London will probably turn to the recycling funds for additional financing and may run down its reserves by $1-$2 billion. With $7 billion in reserves and an additional $3 billion in IMF drawing rights, the United Kingdom has ample resources to finance this year's payments problems without resorting to trade restrictions.

Comparisons with OECD Projections

30. Our estimates of economic growth for the full year 1975 are a little more pessimistic than the estimates of the OECD Secretariat (see Table 7). We foresee a larger drop in inventories in the first half – particularly in Japan and France – than the OECD does. On the other hand, we are more optimistic than the Secretariat about government purchases and private fixed investment in the second half. Our projections of price movements are close to the OECD forecasts.

31. We are projecting an overall current account deficit for the six countries about $3 billion lower than the OECD – a small difference, considering the amount of trade and services involved. Most of the difference is attributable to our estimate that import prices will rise at an annual rate of 9% in the first half of 1975 rather than 12.5%, as the OECD anticipates.

Table 7

Developed Countries[1]: Comparison of CIA and OECD Projections of Economic Growth and Current Account Balances

	Change from Previous Half-Year at an Annual Rate, Seasonally Adjusted					
	1975 I		1975 II		Change in 1975	
	CIA	OECD	CIA	OECD	CIA	OECD
	Percent					
Growth rates						
GNP	-0.3	0.8	2.0	1.8	0.5	1.1
Private consumption	2.1	3.0	2.4	2.8	2.4	3.0
Government purchases	3.4	2.7	4.5	2.9	3.6	3.2
Gross fixed private investment	-0.4	-3.7	0.7	-1.2	-1.3	-3.3
Plant and equipment	1.3	-1.4	1.5	-1.3	0.9	-2.1
Housing construction	-3.1	-8.5	-0.5	-1.2	-4.8	-5.7
Final domestic demand	1.9	1.9	2.5	2.0	1.8	1.9
Exports of goods and services	1.6	N.A.	2.6	N.A.	1.5	N.A.
Imports of goods and services	2.3	N.A.	3.8	N.A.	2.2	N.A.
Net foreign demand[2]	-0.1	....	-0.2	-0.1	-0.1	....
Stockbuilding[2]	-2.0	-1.0	-0.3	-0.1	-1.3	-0.7
	Billion US $					
Current account balances	-4.1	-6.2	-4.6	-5.7	-8.7	-11.9
Canada	-2.6	-2.5	-2.4	-2.7	-5.0	-5.2
France	-2.0	-2.2	-2.2	-2.3	-4.2	-4.5
Italy	-3.0	-2.5	-2.7	-2.2	-5.7	-4.7
Japan	0.1	-1.0	-0.7	-1.0	-0.6	-2.0
United Kingdom	-3.6	-4.2	3.3	-3.3	-6.9	-7.5
West Germany	7.0	6.2	6.7	5.8	13.7	12.0

1. Canada, France, Italy, Japan, the United Kingdom, and West Germany.
2. Changes are expressed as a percent of GNP of preceding period.

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APPENDIX

STATISTICS ON ECONOMIC PERFORMANCE

Canada: Current Account Trends[1]

	1974	Projected 1975	1974 I	1974 II	Projected 1975 I	Projected 1975 II
	Billion US $[2]					
Exports (f.o.b.)	32.6	34.4	15.9	16.7	16.7	17.7
Imports (f.o.b.)	31.9	36.5	14.9	17.0	17.9	18.6
Trade balance	0.7	-2.1	1.0	-0.3	-1.2	-0.9
Net services and transfers	-2.9	-2.9	-1.5	-1.4	-1.4	-1.5
Current account balance	-2.2	-5.0	-0.5	-1.7	-2.6	-2.4
	Percent Change from Previous Period Half-Year Data at an Annual Rate					
Export volume	-2.7	-0.8	-2.9	0.8	-2.0	2.0
Export prices in terms of US $	33.5	6.4	48.1	9.4	2.0	10.1
Import volume	17.8	3.2	23.5	13.8	1.0	2.0
Import prices in terms of US $	22.6	10.9	30.3	14.4	9.8	5.9

1. Half-year data seasonally adjusted.
2. Canadian dollar values were converted at the following exchange rates: 0.9725 Canadian dollar to the US dollar in the first half of 1974, 0.9935 for the second half, and 0.9958 for the first and second halves of 1975.

Canada: Changes in Real GNP and Other Domestic Economic Indicators

	Value in 1973 (Billion 1973 US $)	Percent					
				Change from Previous Half-Year at an Annual Rate, Seasonally Adjusted			
						Projected	
		1974	Projected 1975	1974 I	1974 II	1975 I	1975 II
Private consumption	68	5.4	3.1	6.5	3.2	2.8	3.6
Government purchases	27	6.8	7.2	6.5	6.7	7.2	7.8
Gross fixed private investment	22	8.7	1.3	11.3	-3.1	1.8	4.6
Plant and equipment	15	11.4	7.0	10.9	8.4	6.7	6.0
Housing construction	7	2.2	-13.6	12.1	-28.0	-11.7	....
Final domestic demand	117	6.3	3.7	7.4	2.8	3.6	5.1
Exports of goods and services	31	-1.7	0.5	-0.4	....	....	2.0
Imports of goods and services	32	10.9	8.1	11.1	13.4	6.1	7.2
Net foreign demand[1]	-1	-3.3	-2.1	-3.0	-3.5	-1.7	-1.4
Stockbuilding[1]	1	0.6	-1.4	1.4	-0.9	-1.7	-1.3
GNP	117	3.5	0.3	5.6	-1.4	0.3	2.0
Industrial production		2.7	-1.5	6.8	-4.8	-1.0	1.0
Money supply (M_1)		9.8	8.8	13.8	1.1	10.3	13.4
Consumer prices[2]		10.9	11.0	10.4	12.6	10.7	10.0
Wholesale industrial prices[2]		21.3	1.0	29.3	12.2	-3.9	....

1. Changes are expressed as a percent of GNP of the previous period.
2. Not seasonally adjusted.

France: Current Account Trends[1]

	1974	Projected 1975	1974 I	1974 II	Projected 1975 I	Projected 1975 II
	Billion US $[2]					
Exports (f.o.b.)	46.6	55.4	22.2	24.4	27.0	28.4
Imports (f.o.b.)	50.0	56.8	24.0	26.0	27.6	29.2
Trade balance	-3.4	-1.4	-1.8	-1.6	-0.6	-0.8
Net services and transfers	-2.3	-2.8	-1.0	-1.3	-1.4	-1.4
Current account balance	-5.7	-4.2	-2.8	-2.9	-2.0	-2.2
	Percent Change from Previous Period Half-Year Data at an Annual Rate					
Export volume	8.3	-1.0	20.9	-12.4	2.8	4.0
Export prices in terms of US $	17.7	20.1	4.9	37.9	19.1	5.7
Import volume	3.9	-0.9	10.5	-10.6	2.0	4.0
Import prices in terms of US $	37.8	14.6	44.8	31.2	10.5	7.6

1. Half-year data seasonally adjusted.
2. French franc values were converted at the following exchange rates: 4.905 francs to the US dollar in the first half of 1974, 4.716 for the second half, and 4.280 for the first and second halves of 1975.

France: Changes in Real GNP and Other Domestic Economic Indicators

	Value in 1973 (Billion 1973 US $)	Percent					
				Change from Previous Half-Year at an Annual Rate, Seasonally Adjusted			
						Projected	
		1974	Projected 1975	1974 I	1974 II	1975 I	1975 II
Private consumption	152	3.8	1.9	3.8	2.0	1.0	3.4
Government purchases	47	3.1	2.8	2.6	2.0	3.0	3.0
Gross fixed private investment	51	5.0	0.6	8.4	-2.1	0.6	3.0
Plant and equipment	33	5.6	2.8	5.9	4.0	2.4	2.4
Housing construction	18	3.8	-3.9	13.4	-13.0	-3.0	4.5
Final domestic demand	250	3.9	1.9	4.5	1.1	1.3	3.3
Exports of goods and services	46	6.9	0.5	13.0	-7.3	2.8	4.0
Imports of goods and services	44	5.8	-0.2	10.3	-8.4	2.0	4.0
Net foreign demand[1]	2	0.2	0.1	0.5	0.1	0.2	....
Stockbuilding[1]	5	0.1	-1.1	-0.1	0.4	-2.4	....
GNP	257	4.3	0.7	5.3	1.7	-1.0	3.3
Industrial production		2.8	-8.2	5.6	-4.5	-15.0	3.5
Money supply (M_1)		10.4	10.9	12.9	8.5	12.4	10.3
Consumer prices[2]		13.6	10.8	15.0	14.5	10.3	8.2
Wholesale industrial prices[2]		29.1	2.9	48.8	4.8	-0.2	6.5

1. Changes are expressed as a percent of GNP of the previous period.
2. Not seasonally adjusted.

Italy: Current Account Trends[1]

	1974	Projected 1975	1974 I	1974 II	Projected 1975 I	Projected 1975 II
			Billion US $[2]			
Exports (f.o.b.)	30.1	37.6	13.6	16.5	18.2	19.4
Imports (f.o.b.)	38.1	42.7	18.1	20.0	20.9	21.8
Trade balance	-8.0	-5.1	-4.5	-3.5	-2.7	-2.4
Net services and transfers	-0.3	-0.6	-0.1	-0.2	-0.3	-0.3
Current account balance	-8.3	-5.7	-4.6	-3.7	-3.0	-2.7
			Percent Change From Previous Period Half-Year Data at an Annual Rate			
Export volume	3.0	3.7	-7.2	11.3	2.0	3.2
Export prices in terms of US $	27.7	20.5	15.8	32.2	19.3	10.1
Import volume	-6.3	-0.7	-11.2	-2.8	-1.0	2.0
Import prices in terms of US $	55.4	12.9	85.5	25.6	10.3	6.7

1. Half-year data seasonally adjusted.
2. Italian lire values were converted at the following exchange rates: 641.82 lire to the US dollar in the first half of 1974, 650.67 for the second half, 625.00 for the first and second halves of 1975.

Italy: Changes in Real GNP and Other Domestic Economic Indicators

	Value in 1973 (Billion 1973 US $)	Percent					
				Change from Previous Half-Year at an Annual Rate, Seasonally Adjusted			
		1974	Projected 1975	1974 I	1974 II	Projected 1975 I	Projected 1975 II
Private consumption	89	3.6	-1.0	6.1	-3.0	-0.5	....
Government purchases	28	1.6	0.3	2.0	-0.8	0.2	1.4
Gross fixed private investment	21	4.7	-5.1	2.0	-2.8	-6.7	-4.5
Plant and equipment	8	10.0	-7.1	2.0	-6.9	-7.8	-5.9
Housing construction	13	1.6	-3.9	2.0	....	-5.9	-3.6
Final domestic demand	138	3.0	-1.3	3.7	-2.6	-1.3	-0.4
Exports of goods and services	31	4.0	4.7	-9.8	6.9	4.3	3.2
Imports of goods and services	34	0.3	-0.5	-5.4	-0.3	-0.8	....
Net foreign demand[1]	-3	0.9	1.1	-1.0	1.6	1.1	0.8
Stockbuilding[1]	1	-0.4	-0.5	-0.1	0.3	-1.1	....
GNP	136	3.6	-0.5	2.6	-0.7	-1.2	0.4
Industrial production		4.6	-9.2	6.0	-12.6	-9.9	-4.0
Money supply (M_1)		20.0	15.2	21.6	16.0	15.0	15.0
Consumer prices[2]		19.4	20.2	19.7	28.0	18.6	16.9
Wholesale industrial prices[2]		45.2	15.0	66.2	26.7	10.5	13.0

1. Changes are expressed as a percent of GNP of the previous period.
2. Not seasonally adjusted.

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Japan: Current Account Trends[1]

	1974	Projected 1975	1974 I	1974 II	Projected 1975 I	Projected 1975 II
	Billion US $[2]					
Exports (f.o.b.)	55.0	64.7	24.9	30.1	31.9	32.8
Imports (f.o.b.)	53.7	58.2	26.2	27.5	28.3	29.9
Trade balance	1.3	6.5	-1.3	2.6	3.6	2.9
Net services and transfers	-6.5	-7.1	-3.0	-3.5	-3.5	-3.6
Current account balance	-5.2	-0.6	-4.3	-0.9	0.1	-0.7
	Percent Change from Previous Period Half-Year Data at an Annual Rate					
Export volume	15.1	6.3	20.7	19.6	2.0	3.0
Export prices in terms of US $	29.6	10.7	37.4	22.2	10.1	2.6
Import volume	0.9	0.3	-5.7	-5.5	1.4	4.0
Import prices in terms of US $	63.9	8.1	115.2	16.6	4.4	7.4

1. Half-year data seasonally adjusted.
2. Yen values were converted at the following exchange rates: 285.7 yen to the US dollar in the first half of 1974, 297.7 for the second half, and 294.1 for the first and second halves of 1975.

Japan[1]: Changes in Real GNP and Other Domestic Economic Indicators

		Percent					
				Change from Previous Half-Year at an Annual Rate, Seasonally Adjusted			
						Projected	
	Value in 1973 (Billion 1973 US $)	1974	Pro-jected 1975	1974 I	1974 II	1975 I	1975 II
Private consumption	211	1.5	3.9	-3.3	6.7	3.0	3.0
Government purchases	76	-4.9	5.5	-7.8	5.9	4.0	8.2
Gross fixed private investment	113	-8.9	-0.4	-22.0	-7.1	1.9	2.2
Plant and equipment	79	N.A.	-0.5	N.A.	N.A.	1.8	1.8
Housing construction	34	N.A.	-0.1	N.A.	N.A.	2.0	3.0
Final domestic demand	400	-2.5	3.0	-9.8	2.7	2.9	3.8
Exports of goods and services	45	18.8	5.7	28.4	17.3	2.0	2.4
Imports of goods and services	44	10.7	-0.5	13.9	-5.3	....	3.4
Net foreign demand[2]	1	0.8	0.8	1.3	2.8	0.3	-0.1
Stockbuilding[2]	13	-0.1	-3.3	3.0	-2.5	-3.5	-1.6
GNP	414	-1.7	0.5	-4.2	3.0	-0.6	2.1
Industrial production		-2.5	-9.2	-3.4	-13.4	-12.0	3.0
Money supply (M_1)		17.0	15.1	32.0	8.2	18.2	16.0
Consumer prices[3]		24.4	12.8	32.2	17.6	11.9	10.2
Wholesale industrial prices[3]		31.4	6.0	47.4	10.8	4.3	4.7

1. Data for 1974 include recent official revisions.
2. Changes are expressed as a percent of GNP of the previous period.
3. Not seasonally adjusted.

United Kingdom: Current Account Trends[1]

	1974	Projected 1975	1974 I	1974 II	Projected 1975 I	Projected 1975 II
	Billion US $[2]					
Exports (f.o.b.)	36.2	43.2	17.1	19.1	21.0	22.2
Imports (f.o.b.)	48.4	52.7	23.4	25.0	26.0	26.7
Trade balance	-12.2	-9.5	-6.3	-5.9	-5.0	-4.5
Net services and transfers	3.4	2.6	1.6	1.8	1.4	1.2
Current Account balance	-8.8	-6.9	-4.7	-4.1	-3.6	-3.3
	Percent Change from Previous Period Half-Year Data at an Annual Rate					
Export volume	5.5	1.9	8.8	0.6	3.2	0.6
Export prices in terms of US $	21.5	17.1	23.8	24.0	17.1	11.1
Import volume	0.9	-0.4	-1.9	-1.7	-1.0	-2.0
Import prices in terms of US $	41.4	9.3	58.6	16.1	9.3	7.6

1. Half-year data seasonally adjusted.
2. Sterling values were converted at the following exchange rates: 0.4277 pound to the US dollar in the first half of 1974, 0.4273 for the second half, and 0.4191 for the first and second halves of 1975.

United Kingdom: Changes in Real GNP and Other Domestic Economic Indicators

	Value in 1973 (Billion 1973 US $)	Percent					
				Change from Previous Half-Year at an Annual Rate, Seasonally Adjusted			
						Projected	
		1974	Projected 1975	1974 I	1974 II	1975 I	1975 II
Private consumption	111	0.3	0.8	-1.9	1.8	0.6	0.2
Government purchases	46	2.0	2.5	2.0	0.6	3.4	2.4
Gross fixed private investment	20	-5.5	-1.5	-15.3	6.4	-3.8	-4.0
Plant and equipment	16	0.6	0.7	-7.3	11.7	-2.0	-4.0
Housing construction	4	-30.0	-13.4	-44.0	-19.5	-14.5	-4.0
Final domestic demand	177	-0.3	1.0	-2.5	2.0	0.9	0.3
Exports of goods and services	40	5.1	1.8	7.9	1.2	2.0	2.0
Imports of goods and services	45	1.2	1.5	-1.8	0.1	2.0	2.0
Net foreign demand[1]	-5	0.9	0.1	2.1	0.4	....	....
Stockbuilding[1]	2	-1.1	....	-1.6	0.4	-0.3	....
GNP	174	-0.6	1.0	-2.0	-2.7	0.5	0.3
Industrial production		-1.8	-1.5	-5.6	2.3	-4.5	0.6
Money supply (M_1)		2.9	8.3	-0.3	6.3	8.2	10.3
Consumer prices[2]		16.0	18.1	18.9	16.2	21.0	14.5
Wholesale industrial prices[2]		23.4	19.3	28.6	24.8	21.0	11.3

1. Changes are expressed as a percent of GNP of the previous period.
2. Not seasonally adjusted.

West Germany: Current Account Trends[1]

	1974	Projected 1975	1974 I	1974 II	Projected 1975 I	Projected 1975 II
	Billion US $[2]					
Exports (f.o.b.)	89.4	105.1	43.2	46.2	51.3	53.8
Imports (f.o.b.)	65.4	76.4	30.9	34.5	37.0	39.4
Trade balance	24.0	28.7	12.3	11.7	14.3	14.4
Net services and transfers	-14.0	-15.0	-6.8	-7.2	-7.3	-7.7
Current account balance	10.0	13.7	5.5	4.5	7.0	6.7
	Percent Change from Previous Period Half-Year Data at an Annual Rate					
Export volume	11.6	1.2	20.8	-4.9	3.0	3.9
Export prices in terms of US $	18.8	16.2	8.8	20.3	19.7	5.9
Import volume	-1.5	5.6	-6.6	7.7	4.9	4.9
Import prices in terms of US $	28.4	10.6	27.3	15.7	9.6	8.1

1. Half-year data seasonally adjusted.
2. Deutschmark values were converted at the following exchange rates: 2.618 marks to the US dollar in the first half of 1974, 2.567 for the second half, and 2.320 for the first and second halves of 1975.

West Germany: Changes in Real GNP and Other Domestic Economic Indicators

	Value in 1973 (Billion 1973 US $)	Percent					
				Change from Previous Half-Year at an Annual Rate, Seasonally Adjusted			
						Projected	
		1974	Projected 1975	1974 I	1974 II	1975 I	1975 II
Private consumption	184	0.2	3.0	1.6	1.3	4.0	2.8
Government purchases	62	4.4	3.1	4.5	3.9	2.8	2.8
Gross fixed private investment	85	-7.8	-3.6	-7.0	-8.1	-2.2	-1.4
Plant and equipment	36	-7.7	0.9	-13.4	1.8	....	2.0
Construction	49	-7.8	-6.8	-2.1	-14.7	-4.0	-4.0
Final domestic demand	331	-1.0	1.5	-0.1	-0.5	2.3	1.9
Exports of goods and services	84	13.5	-1.1	27.8	-6.2	....	2.0
Imports of goods and services	74	4.9	4.3	8.2	4.9	3.6	4.9
Net foreign demand[1]	10	2.2	-1.3	4.8	-2.8	-0.9	-0.7
Stockbuilding[1]	4	-0.9	-0.1	-2.7	0.5	-1.1	1.3
GNP	345	0.4	0.1	2.1	-2.9	0.4	2.4
Industrial production		-1.4	-4.1	-0.4	-8.2	-10.7	6.5
Money supply (M_1)		5.5	7.7	8.3	10.3	6.0	8.4
Consumer prices[2]		7.0	5.3	8.6	4.9	5.1	6.1
Wholesale industrial prices[2]		13.4	6.1	19.8	8.4	5.0	6.0

1. Changes are expressed as a percent of GNP for the previous period.
2. Not seasonally adjusted.